

Message Text

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41

ACTION NEA-16

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 2979

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TAGS: ECON, IS

SUBJECT: NEW ANTI-INFLATION PROGRAM

REF: TEL AVIV 3620

1. IN EXTRAORDINARY SESSION LASTING INTO EARLY HOURS OF JULY 2, GOVT ADOPTED PACKAGE OF MEASURES INTENDED TO STEM SERIOUS LEVEL OF INFLATION, AMOUNTING TO APPROXIMATELY 23 PERCENT DURING FIRST 6 MONTHS OF 1973. SOME OF THESE MEASURES CAN BE ADOPTED BY GOVT BY DECREE; OTHERS REQUIRE CONSENT OF KNESSET AND/OR HISTADRUT. IMPACT OF THESE MEASURES WILL BE ANALYZED SEPTTEL. FOLLOWING PARA DESCRIBES PACKAGE OF PROPOSED MEASURES.

2. (A) IMPORT SURCHARGE IS RAISED FROM 25 PERCENT TO 35 PERCENT. AT SAME TIME GOVT ANNOUNCED IT WILL INCREASE EXPRT SUBSIDIES BY IL 0.42 ACROSS THE BOARD (CF. TEL AVIV A-121) OF MAY 25). IMPORT SURCHARGE WAS FIRST IMPOSED IN AUGUST 1970 AT LEVEL OF 20 PERCENT, AND WAS RAISED TO 25 PERCENT IN NOVEMBER 1973. INCREASE IN SURCHARGE IS SUBSTITUTE FOR DEVALUTION, WHICH IS CONSIDERED TOO RISKY DURING PRESENT BOOM. IT IS EXPECTED TO RAISE IL 900 MILLION IN ADDITIONAL REVENUE, OF WHICH IL 200 MILLION WILL BE REQUIRED FOR INCREASES IN EXPORT SUBSIDIES.

(B) COMPULSORY DEFENSE LOAN IS RAISED UP TO NOW

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COMPULSORY LOAN WAS LEVIED AT RATE OF 7 PERCENT ON FIRST IL 40,000

OF ANNUAL TAXABLE INCOME, 9 PERCENT ON NEXT IL 20,000, 12 PERCENT ON NEXT IL 20,000, AND 17 PERCENT ON TAXABLE INCOME ABOVE IL 80,000. ALL THESE RATES ARE RAISED BY 3 PERCENT.

(C) GOVT HAS CALLED FOR HISTADRUT TO AGREE THAT HALF OF COST-OF-LIVING ALLOWANCE PAYABLE FROM JULY 1 BE DEFERRED. INSTEAD THIS HALF WOULD BE PAID BY EMPLOYERS DIRECTLY TO TREASURY, AGAINST VAGUE PROMISE THAT IT WOULD BE RETURNED TO INDIVIDUALS SOMETIME AFTER APRIL 1, 1975. HISTADRUT STRONGLY OPPOSES THIS PROPOSAL, AND GOVT IS STILL NEGOTIATING WITH HISTADRUT. IT IS DOUBTFUL WHETHER GOVT EXPECTED HISTADRUT TO AGREE, BUT SOME COMPROMISE MAY YET EMERGE.

(D) ONE-TIME PROPERTY SURTAX OF 5 PERCENT IS IMPOSED ON PRIVATE AND BUSINESS PROPERTY VALUED IN EXCESS OF IL 3,000. PROPOSAL IS DIRECTED PARTICULARLY AT CAR OWNERS. DWELLINGS OCCUPIED BY OWNER ARE EXEMPT. TAX IS PAYABLE IN 3 ANNUAL INSTALLMENTS BEGINNING THIS YEAR.

(E) GOVT BUDGET EXPENDITURE IS TO BE CUT BY IL 2 BILLION. AREAS IN WHICH CUTS ARE EXPECTED TO FALL HAVE NOT BEEN SPECIFIED, AND IT MAY PROVE VERY DIFFICULT TO MAKE REDUCTIONS. MOST CUTS WILL EVIDENTLY COME IN DEVELOPMENT BUDGET, WHERE PUBLIC BUILDINGS SUCH AS SCHOOLS WILL BE DEFERRED. GOVT INSISTS THAT PUBLIC HOUSING WILL NOT BE AFFECTED. IT HAS BEEN EXPLAINED THAT THIS MEASURE WILL OBTAIN NEED FOR GOVT TO SUBMIT SUPPLEMENTARY BUDGET LATER THIS YEAR. SINCE GOVT BUDGET WAS ONLY ENACTED INTO LAW LAST WEEK, THIS FURNISHES ONE INDICATOR OF HOW FAST SITUATION HAS DETERIORATED.

(F) INTERESTS RATES ON GOVT-SUBSIDIZED-LOANS FOR DEVELOPMENT, WHICH HITHERTO RANGED FROM 6-1/2 TO 9 PERCENT DEPENDING ON GEOGRAPHIC AREA, WILL NOW RANGE FROM 8 TO 12 PERCENT. AT PRESENT RATES OF INFLATION THESE LOANS WILL STILL BE A BARGAIN.

(G) TAX COLLECTION WILL BE PURSUED WITH MORE VIGOR. THIS IS PERENNIAL CHESTNUT TO WHICH TOO MUCH CREDIT NEED NOT BE GIVEN.

(H) CONSTRUCTION OF HOUSING UNITS EXCEEDING 110 SQUARE METERS WILL BE PROHIBITED FOR ONE YEAR. THIS IS SUPPOSED TO BE ACCOMPLISHED THROUGH CONTROL OF BUILDING LICENSES.

(I) PAYROLL TAX OF 5 PERCENT IS TO BE IMPOSED UPON EMPLOYERS. THIS MEASURE IS LINKED TO PROPOSED FREEZING OF HALF OF COST-OF-LIVING ALLOWANCE.

(J) PRICES OF 145 STAPLE FOOD COMMODITIES ARE FROZEN AT PRESENT LEVEL FOR REMAINDER OF FISCAL YEAR (CF. TEL AVIV A-52 OF MARCH 19).

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(K) POOR FAMILIES WILL BE COMPENSATED FOR EXPECTED PRICE INCREASES FROM FUNDS REALIZED THROUGH IMPORT SURCHARGE. IL 40 MILLION IS EARMARKED FOR THIS PURPOSE.
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